

Message Text

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ACTION COME-00

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 /059 W

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R 311557Z MAR 76 ZDK
FM AMEMBASSY BERN
TO SECSTATE WASHDC 2373

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E.O. 11652: N/A

TAGS: BEXP, EFIN, SZ

SUBJECT: 1980 TRADE AND ECONOMIC PROJECTIONS

REF: STATE A-1182

1. SUMMARY. REPAIR AND ITS ATTACHMENT CONTAINED IMPORT PROJECTIONS FOR SWITZERLAND PREPARED BY COMMERCE/OMP. THE EMBASSY BELIEVES THESE PROJECTIONS ARE TOO HIGH. END SUMMARY.

2. SWISS IMPORTS DECLINED 20 PERCENT IN 1975 AND WERE 12 PERCENT LOWER FOR THE FIRST TWO MONTHS OF 1976 THAN FOR THE SAME TWO MONTHS OF 1975. IN ORDER, THEREFORE, TO REACH THE FIGURES PROJECTED BY OMP SWISS EXPORTS WOULD HAVE TO GROW FROM \$13.3 BILLION IN 1975, (NOT THE \$14.3 BILLION LEVEL OF 1974, ON WHICH THE OMP PROJECTION WAS BASED), TO \$23.7 BILLION IN 1980, A TOTAL CHANGE OF \$10.4 BILLION OR NEARLY 78 PERCENT; OR AN ANNUAL AVERAGE RATE OF INCREASE OF OVER 12 PERCENT. WE BELIEVE THAT A 12 PERCENT AVERAGE RATE OF INCREASE IS HIGHER THAN WHAT CAN REASONABLY BE EXPECTED, AND THAT THE 8.6 PERCENT RATE PROJECTED BY OMP IS ALSO TOO HIGH.

3. WE RECOGNIZE THAT A RATE OF INCREASE OF EVEN AS MUCH

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AS 12 PERCENT IS CONSISTENT WITH RECENT HISTORICAL

EXPERIENCE (1972, 1973 AND 1974). HOWEVER, THE GROWTH IN IMPORTS DURING THAT PERIOD WAS RELATED TO HIGH GNP GROWTH RATES. WE DOUBT THAT SWISS GROWTH RATES FOR THE PERIOD 1975 THROUGH 1980 ARE LIKELY TO BE HIGH ENOUGH TO SUGGEST AS LARGE AN INCREASE IN IMPORTS AS THAT PROJECTED BY OMP. NOR IS THERE ANY EVIDENCE AS YET OF OTHER FACTORS PRESENT IN THE ECONOMIC OUTLOOK WHICH WOULD TEND TO SUPPORT THE PROJECTION.

4. UNOFFICIAL AND PRELIMINARY GOS PROJECTIONS OF IMPORT GROWTH OVER THE PERIOD 1976 THROUGH 1980 ARE AS FOLLOWS:

1976	1977	1978	1979	1980
8.6PERCENT	6.1PERCENT	5.1PERCENT	6.1PERCENT	6.1PERCENT

THESE ARE BASED ON AN ASSUMED 3PERCENT-4PERCENT INCREASE IN IMPORT PRICES, ON A LOWER RATE OF INCREASE IN PRIVATE CONSUMPTION THAN IN IMPORTS FOR ALL YEARS EXCEPT 1978, AND ON WHAT MAY TURN OUT TO BE SOMEWHAT OPTIMISTIC PROJECTIONS OF REAL GROWTH.

5. FOR EXAMPLE, FOR 1976 THE GOS HAS ESTIMATED A 1.3 PERCENT GROWTH RATE. AS WAS SAID IN THE COURSE OF THE 1976 OECD REVIEW OF THE SWISS ECONOMY, QUOTE THE SHORT-TERM OUTLOOK SEEMS LARGELY DETERMINED BY THE PROSPECTS FOR EXPORTS OF GOODS AND SERVICES AND THE FUTURE BEHAVIOR OF DOMESTIC DEMAND IN THE CONSTRUCTION SECTOR. UNQUOTE. THUS FAR THERE IS NO EVIDENCE OF ANY IMPROVEMENT IN THE CONSTRUCTION INDUSTRY; ON THE CONTRARY. AS FOR EXPORTS, SWISS PERFORMANCE MAY WELL DEPEND ON THE EXTENT TO WHICH THE COMPETITIVE POSITION OF SWISS INDUSTRY HAS BEEN DAMAGED AS A RESULT OF APPRECIATION OF THE SWISS FRANC (56PERCENT AGAINST ALL CURRENCIES, TRADE-WEIGHTED SINCE MAY 1971). A FURTHER QUESTION, TO WHICH NO ONE AS YET HAS AN ANSWER, IS THE EXTENT TO WHICH EROSION OF THE COMPETITIVE POSITION OF SWISS INDUSTRY HAS IMPROVED THE PROSPECT FOR IMPORTS.

6. EVIDENCE ON THE CURRENT STRENGTH OF THE COMPETITIVE POSITION OF SWISS INDUSTRY IS FRAGMENTARY AND CONTRADICTORY. BUT THERE IS NONE WHICH WOULD SUPPORT A PROJECTION OF A SURGE IN EXPORT-LED GROWTH IN 1976, OR POSSIBLY EVEN LIMITED OFFICIAL USE

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IN 1977. THERE IS ALSO LITTLE OR NO EVIDENCE OF OTHER FACTORS IN THE ECONOMIC OUTLOOK WHICH SUGGEST A SIGNIFICANT GENERAL IMPROVEMENT IN THE NEAR TERM. IN THE ABSENCE OF SUCH AN IMPROVEMENT WE DOUBT THAT THERE WILL BE AN INCREASE IN IMPORTS OF THE ORDER OF MAGNITUDE PROJECTED BY OMP.

7. PROJECTIONS BEYOND THAT ARE MORE HAZARDOUS, BUT

WE SUSPECT THAT IF ANYTHING, THE GOS PROJECTIONS
ARE CLOSER TO WHAT IS LIKELY TO HAPPEN THAN THOSE
SET FORTH IN REFAIR. WE WOULD PROJECT SWISS IMPORT
GROWTH IN THE SHORT RUN AS FOLLOWS:

1976 1977

3-5PERCENT 6 PERCENT

AND WOULD BE INCLINED TO ACCEPT THE GOS PROJECTIONS
FOR 1978-80.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC TRENDS, TRADE DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 31 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: saccheem
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BERN01402
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760125-0463
From: BERN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976035/aaaaadis.tel
Line Count: 124
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION COME
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE A-1182
Review Action: RELEASED, APPROVED
Review Authority: saccheem
Review Comment: n/a
Review Content Flags:
Review Date: 10 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 MAY 2004 by woolflhd>; APPROVED <23 SEP 2004 by saccheem>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: 1980 TRADE AND ECONOMIC PROJECTIONS
TAGS: BEXP, EFIN, ETRD, SZ
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006